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SUBJECT: LEBANON: AZOUR WORKING WITH IMF ON BENCHMARKS

Classified By: CDA Michele Sison for reasons
1.4 (b) and (d)

¶1. (C) Summary: Finance Minister Azour and his team will be developing benchmarks with the International Monetary Fund (IMF) for the new Emergency Post-Conflict Assistance (EPCA) program during the IMF staff visit to Beirut the week of April 28. Based on PM Siniora's objectives, Azour will also prioritize uses of the fund, such as paying down high-interest loans. Although a new donor's meeting at the start of the new EPCA seems like a good idea to some, Azour understands that the USG does not favor this. Azour expressed his thanks for the support given to Lebanon at the recent Friends of Lebanon meeting in Kuwait, and especially for the assistance in asking the Saudis to move ahead on the \$1 billion deposit promised earlier this year. Facing mounting inflation, high oil prices and a weaker dollar-denominated Lebanese pound, Azour will push back on calls for increased wages, saying that Lebanon needs to help the poor non-wage earners instead. Azour also discussed the issue of American University Hospital (AUH) arrears (see para 4) and recent labor union demands. End summary.

IMF TEAM WILL WORK ON BENCHMARKS

¶2. (C) In an April 23 meeting with Charge, Econoff and Econstaff, Minister of Finance Jihad Azour and his finance team de-briefed about the recent World Bank/IMF meetings in Washington. An IMF team will arrive in Beirut the week of April 28 for ten days with two objectives: run the 2008-2010 macro-economic scenarios for Lebanon, and discuss new measures and objectives. During that time the GOL will agree with the IMF on new benchmarks for the new EPCA, and share those with the USG. In Azour's discussions with the IMF two major objectives were identified: preserving the progress already made, and continuing to push for reforms, keeping in mind the limits posed by the lack of a fully-functioning GOL. At least draft laws should be prepared where required. Two variables are not clear, however: oil costs and donor funds. Although increased oil costs to generate electricity are only an issue for part of 2008, because some of the increase was anticipated, it is not yet clear if Electricite du Liban (EDL) will honor its commitment to pay 20 percent of the total costs, removing that burden from the government. Azour told us that in meetings with EB PDAS Dibble he understood

that the USG would focus on benchmarks like reform in debt management statistics, and fiscal accountability.

NEW CORE GROUP MEETING WILL REVITALIZE DONORS

¶3. (C) Azour said he understood that a new core group or donor meeting might not be of interest now to the USG, given the many similar meetings and the lack of any really new news. However, he added, he sees the value of the IMF suggestion, which might re-mobilize donors, and re-channel funds, which have not arrived as promised. Thus far only 55 percent of donations promised at Paris III have been paid or committed. The IMF promised to provide the Gulf country ministers with background papers on the situation. According to Azour, arranging such a meeting will take time, and if it does not occur in June, then possibly in October to coincide with the fall WB/IMF meetings in DC. The IMF is willing to organize the meeting.

AUH ARREARS

¶4. (C) Azour, while not aware of any specifics regarding a problem in payments to American University Hospital (AUH), made several points clearly. The Ministry of Finance only makes payments to hospitals when instructed to do so by the Ministry of Health, and in 2007 made all outstanding payments in less than three months, in keeping with the EPCA agreement with the IMF. All hospitals are treated the same way as far as reimbursements. There was a problem with the Ministry of Health (MOH) billing in 2007, to the extent that the MOH

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asked to roll over 68 percent of the 2007 bills to 2008, due to delays in claim processing. The National Social Security Fund (NSSF), which is fully autonomous, pays hospitals directly, and receives funds for that purpose from the GOL, the private sector, and others. Finally, Azour pointed out that there is a particular problem with large arrears from the period 2000-2004. Although Azour doubts that applies to AUH, the problems for that period cannot be settled without an act of parliament, which has not functioned in eighteen months. (Note: Embassy will follow up with NSSF and "resigned" Health Minister Khalifa on the AUH issue in the coming week. End Note.)

APPROACHES TO SAUDIS,
GULF MUST BE "HANDLED WITH CARE"

¶5. (C) Azour expressed thanks for the support shown during the recent Friends of Lebanon meeting in Kuwait, although he did not yet have a read out from the GOL attendees. He also expressed thanks for Treasury's offer to raise the issue of the elusive Saudi Arabian \$1 billion deposit in the Central Bank of Lebanon (CBL), promised since January, when Treasury Secretary Henry Paulson is in the Gulf May. "Those people"

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(GCC leadership) have to be handled with care, according to Azour. In DC, Azour also met with the Saudi Finance Minister, and the two exchanged notes about handling inflation. The Saudi minister also reassured Azour that he would discuss the deposit after the Friends of Lebanon meeting.

FINANCIAL MANAGEMENT

¶6. (C) According to Azour, the promised Saudi deposit is more strategic than necessary in the short term. Any potential

liquidity problems will be solved in the next two days through the voluntary exchange of Euro-bonds maturing this year. There will be no problem with liquidity to cover debt repayment in 2008, with growth in deposits better than 12 percent, and that should cover all public and private sector needs of the GOL. In Azour's view the Saudi deposit is a "cushion" which will provide security so if something "negative" happens in 2008 it will not affect financial stability. It will help, when oil prices increase, and EDL, which "always blames others," continues to lose money in 2008. He feels it's important to note that this is not "free" money, but an interest-earning deposit, and the GOL has an excellent track record of returning all deposits with interest. The GOL would like to be viewed as any other correspondent bank.

WORLD BANK MEETING IN MAY IN LEBANON

17. (C) Discussions with the World Bank (WB) revolved around the second tranche of the Development Policy Loan. A team of directors, including the U.S. Executive Director, will visit Beirut May 14-17, 2008, Azour said. Azour has asked that they come to Lebanon with a time line for reform objectives. At issue are certain triggers in the social security sector. According to Azour work was progressing well until Trad Hamadeh, the resigned minister of labor returned, and now wants to test the GOL resolve. Azour says that the GOL wants reforms, commitment and also money. Use of the proceeds of the loan should address items such as oil price increases, commodity price increases, and inflationary pressures. Another use might be to repay IMF loans. The WB loans are "good loans," according to Azour, so it would be better to leave these and repay "bad debt" with higher interest rates. The GOL exposure with WB loans today is lower than before Paris III, largely due to USG repayment of loans as part of the Paris III commitment.

LABOR UNIONS CALLING FOR HIGHER WAGES

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18. (C) Questioned about recent labor union demands for higher minimum wages, Azour pointed out that union workers represent less than five percent of the population, and none of the 40-plus percent "non-wage earners," who Azour sees as the real disadvantaged in Lebanon. Prices are going up on commodities, which have the biggest impact on this sector, and increases in wages would push those prices higher still. Inflation, a severe problem in the 90's, is a problem that the GOL cannot afford, according to Azour, and some actions are planned to preempt the labor disruptions, scheduled for 05/07. The GOL is fighting inflation with subsidies and other weapons, but "maybe it is not communicated well, or maybe the public is just tired of politicians," Azour lamented.

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